



ANNUAL LEGISLATIVE REPORT

March 1, 2005

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Vice President's Message

In 2002, the legislature overwhelmingly (in excess of 90 percent in both chambers) passed an act creating the MBDA. This act calls upon the MBDA to help attract investment in underserved communities and to expand the availability of affordable broadband service across the state. The MBDA is doing just that. In the past 12 months the MBDA has reviewed more than two dozen loan applications and approved a dozen totaling more than \$17 million. Examples of these loans include (but are not limited to) the following:

1. A \$5 million loan to LDMI Communications to expand their facilities-based services across much of the lower peninsula;
2. A \$500,000 loan to Lighthouse Broadband to establish only the 5th commercial deployment of broadband over power line (BPL) technology in the entire United States. The citizens and businesses of Grand Ledge and St. Johns will be the beneficiaries of this deployment later this summer;
3. A \$1.5 million loan to SpeedNet of Saginaw for one of the nation's first commercial deployments of non-line of sight (NLOS) wireless broadband service which is expanding choice and improving service in Saginaw, Midland and Bay City;
4. Two loans totaling \$3 million dollars to ACD.Net of Lansing. This company has used MBDA loans to expand to more than several dozen communities in mid-Michigan and Grand Rapids as well as in the Benton Harbor and southwest Michigan region; and
5. A \$1.5 million to M-33 Access in Rose City, Michigan. This project has expanded M-33's wireless broadband network in an area covering more than 10,000 square miles in rural northeast Michigan.

Additionally, the MBDA has successfully launched a new grant and loan program called the Digital Divide Investment Program (DDIP). Roughly \$6 million in new broadband investments can soon be expected in Muskegon and Marquette Counties (pilot locations) as a result of this program.

The MBDA has consulted with more than a half dozen states considering the adoption of broadband programs similar to those spearheaded in Michigan. We have been asked to submit innovation in government award proposals to several entities, including Harvard University's Kennedy School of Government's "Innovations in State Government" program. We have an extremely positive national reputation and continually receive calls asking about our efforts by those that would like to replicate them.

As a new state lending authority, I am happy to report that we have made tremendous progress in meeting our public mission. We have innovatively structured a 20-year loan with the housing authority (that forestalls significant payments for another 18 years) to allow us to accomplish our mission without any general fund assistance and are poised for an even more successful 2005.

MBDA Board of Directors

Jay Rising, State Treasurer (Chair)

David Hollister, Department of Labor & Economic Growth Director

James W. Butler III, Michigan Broadband Development Authority Vice President

Michael DeVos, Michigan State Housing Development Authority Executive Director

Suzanne Hart Dees (D), Superiorland Library Cooperative

Joel I. Ferguson (D), Ferguson Development LLC

Larry Leatherwood (D), East Lansing Executive Consultant

Dr. Timothy Laing (R), University of Michigan Health System

Matthew E. McLogan (R), Grand Valley State University

Cindy Zerkowski (R), Macomb County Chief Information Officer

Mission and Powers

The MBDA was created in 2002 by a near unanimous vote of both the House and Senate. Its legislatively-established mission is to help the state attract more private sector investment in high-speed Internet infrastructure and to increase demand for and utilization of broadband services. The Legislature also called for the MBDA to help improve competition and affordability of broadband services across the state. The Authority meets these objectives by offering financing to telecommunications companies and others needing assistance in expanding broadband infrastructure. Eligible projects might include expansion of fiber backbone networks, last-mile connectivity solutions (such as wireless, cable, digital subscriber line (DSL), BPL, satellite or other technologies), or network operations centers, for example.

The Authority is authorized to issue investment grade, taxable and tax-exempt bonds, the proceeds of which can be used to provide financing assistance to companies. In an effort to support the start-up of the MBDA, the Michigan State Housing Development Authority (MSHDA) has provided a \$50 million line of credit to the MBDA. This note balloons in 20 years, providing the MBDA with sufficient time to build loan volume and generate revenues necessary to make repayment. In 2005, the MBDA hopes to issue bonds or some other debt instrument in the public bond market. Proceeds would be used to pay down a portion of the MSHDA debt even though such payment is not required. The rest would be used to finance additional projects across the state.

The Authority continually looks to develop innovative strategies to leverage its financing powers and has also been able to secure support (in partnership with the Michigan Economic Development Corporation and the Michigan State Housing Development Authority) for a new Digital Divide Investment Program (DDIP) which is, and will continue allowing the Authority to combine its financing assistance with Community Development Block Grant (CDBG) monies.

MBDA's 2004 Primary Goals

- 1. Obtain board approval for at least \$11 million in new loans;**
- 2. Contact every Internet Service Provider (ISP) in the state;**
- 3. Develop a "Fast-Track" Loan Program for smaller loan applicants;**
- 4. Receive Federal approval to use CDBG monies for a new digital divide program;**
- 5. Develop and issue a Request For Proposal (RFP) for the new "Digital Divide Investment Program (DDIP)";**
- 6. Stay within budget and develop a plan to reduce operating expenses by 10 percent;**
- 7. Restructure the MSHDA Lending Agreement to lower accrued interest expense; and**
- 8. Maintain Michigan's recognition as a national leader in encouraging broadband expansion.**

2004 Results Summary

- 1. Reviewed 21 loan applications and submitted 9 for board approval;**
- 2. Received board approval for all 9 recommended applicants totaling more than \$12 million in new loan approvals;**
- 3. Helped seed investments with these 9 providers that will impact nearly 150 cities in some 45 counties across the state when network construction is complete;**
- 4. Made first “seed loan” to an upper peninsula-based wireless broadband provider;**
- 5. Developed and received board approval for a new flash loan program to speed the approval process for smaller loan applicants;**
- 6. Secured Federal and State approval to use \$4 million of Community Development Block Grant (CDBG) money for a new Digital Divide Investment Program (DDIP);**
- 7. Issued Digital Divide Investment Program RFPs for Muskegon and Marquette Counties;**
- 8. Introduced and developed a partnership between the State and SBC to pilot Wi-Fi services at State parks and rest areas;**
- 9. Actively participated and supported the Cool Cities initiative, working with government, economic and other public interest groups in Washtenaw, Ottawa, Kent, Oakland, Wayne, Berrien, Muskegon and Marquette counties among others;**
- 10. Asked by Harvard University’s Kennedy School of Government to submit an award application for its “Innovations in State Government” program;**
- 11. Kept expenses below budget in Fiscal Year 03/04 and developed a board approved budget for FY05/06 that reduces expenses by 10 percent;**
- 12. Reached out to every Internet Service Provider (ISP) in the state and aggressively sought out business development opportunities that have led to a pipeline of new loan applications and likely applicants with project financing needs that exceed \$25 million.**

Loan and Project Summaries

1. ACD.net—DSL Expansion Project (\$1.23 million)

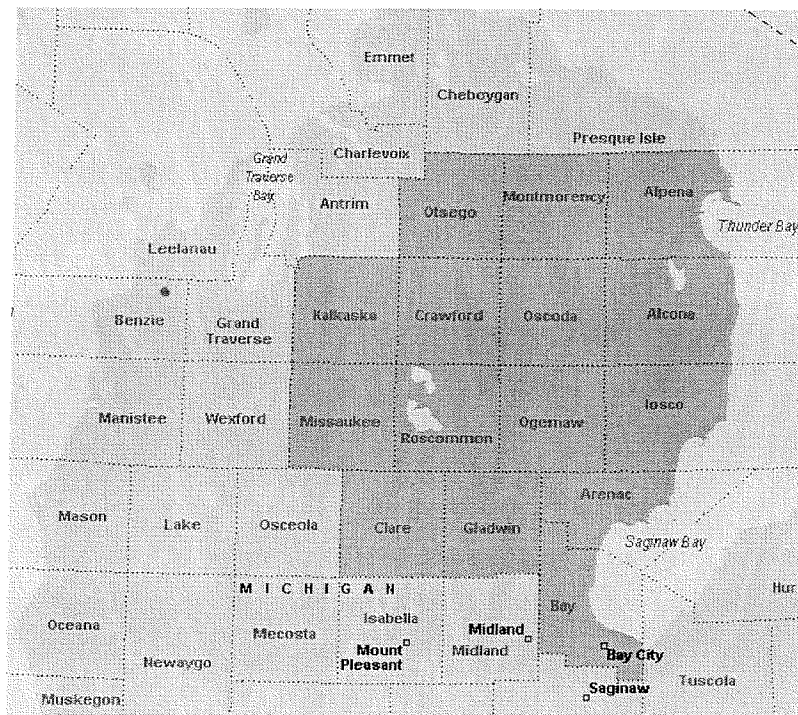
ACD.net, a Lansing-based provider, is utilizing an MBDA loan to expand its DSL service offerings into East Grand Rapids, Holt, Mason, Haslett, Portland, and Michigan Center. This project will allow ACD.net to extend service to over 23,500 homes and 3,100 businesses. In addition to providing affordable broadband service in these communities, the company also gives back to the community through outreach, and reduced cost or free service to non-profit charitable organizations such as Black Child and Family Services, Catholic Social Services, Ele's Place, PBS Radio and Television, and the Listening Ear.



2. M-33 Access—Wireless Broadband Expansion Project (\$1.28 million)

M-33 Access, a Rose City, Michigan-based provider utilized the MBDA's loan to expand its wireless broadband network footprint in northeast Michigan. Its 10,000 square mile network is considered to be the largest wireless broadband network of its kind anywhere in the U.S. The MBDA loan was used to expand services and capabilities to provide broadband Internet service to Kirtland Community College and a dozen surrounding school districts. Savings for these customers are projected to exceed \$1 million over the next 5 years.

M-33's footprint covers an area roughly from Standish to Lewiston and from Lake Huron to Lake City. The MBDA loan is helping M-33 service customers in the following counties: Bay, Arenac, Gladwin, Clare, Iosco, Ogemaw, Roscommon, Missaukee, Alcona, Oscoda, Crawford, Kalkaska, Alpena, Montmorency and Otsego.

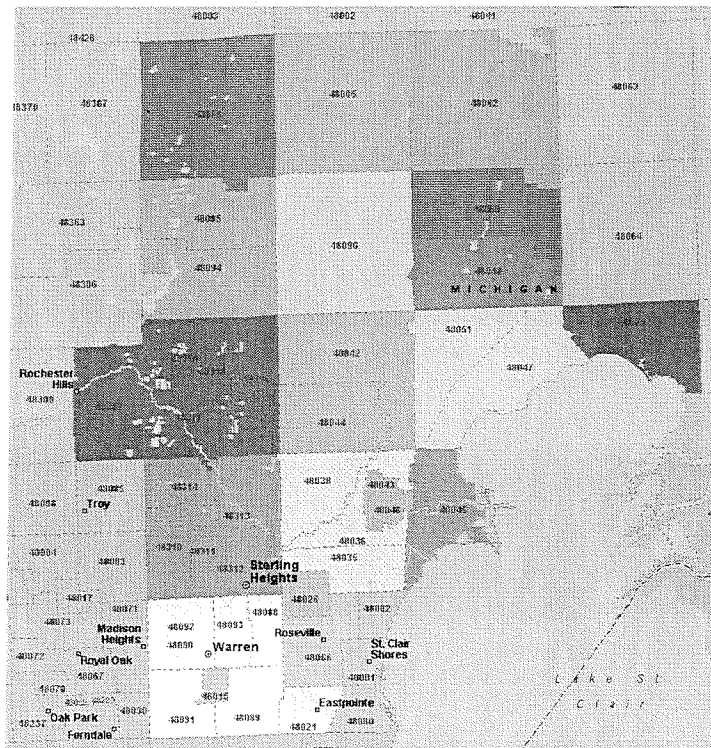


M-33 Access has a unique role in its community. The company has been designated an “essential service” by Ogemaw County and works hard to develop goodwill in the community. M-33 Access has special discount programs for individuals and families associated with the schools. Through a program called net4kids, M-33 Access offers discounted Internet service to the parents of children in grades K-12. The same program also allows customers to donate 10 percent of their monthly service fees to their school district.

3. Michigan Lightwave, LLC—Fiber Expansion Project (\$826,300)

Michigan Lightwave, a Lapeer, Michigan-based provider of dark fiber services, utilized its MBDA loan to complete the construction of a 165-mile Macomb County and northern Oakland County fiber ring.

The project is beginning to offer a unique public benefit to medium and large public and private entities in southeast Michigan by lowering their communications costs. Fiber-optic connections provide the fastest, most reliable, securest broadband service to large users. Such connections allow these large users to reduce their high monthly lease costs from traditional providers. Macomb County is home to over 500 medium and large businesses that fit Michigan Lightwave's customer profile.

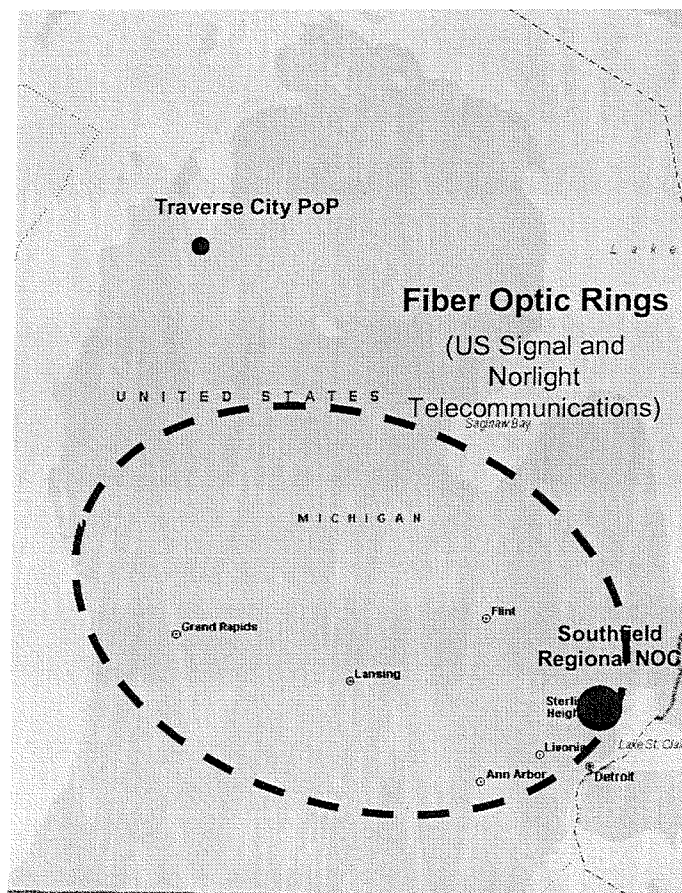


Lightwave's fiber is now available in Warren, Center Line, Lake Township, Eastpointe, Fraser, Sterling Heights, Clinton Township, Mt. Clemens, Harrison Township, Shelby Township, Macomb Township, Chesterfield Township, New Baltimore, New Haven, Lenox Township, Ray Township, Armada, Armada Township, Bruce Township, Washington Township, Romeo, Roseville, Richmond, Richmond Township and St. Clair Shores, with lateral extensions to St. Clair and Oakland Counties.

4. Appia Communications—Network Operation Center Expansion (\$758,600)

Appia Communications, a Traverse City-based company, is utilizing its MBDA loan to roll out a feature-rich broadband service (broadband managed communications solution for small and medium enterprises) that is designed to save small- and medium-sized businesses 20 to 30 percent on their monthly telecommunications bills. When all upgrades and expansions are complete, Appia Communications will have the ability to serve up to three quarters of the lower-peninsula.

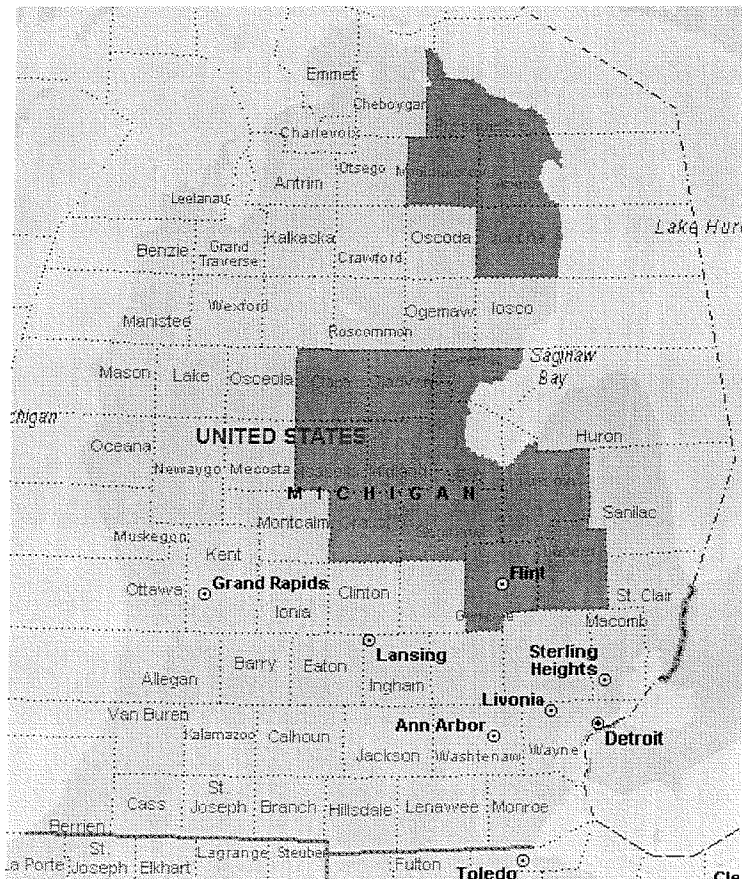
Appia targets sales to small enterprises. Appia provides its customers converged broadband service, bundling together their broadband Internet access, local voice, long distance and video conferencing over a single connection. Appia sells these products as a managed, outsourced service. In other words, they are leasing service from existing carriers and using their proprietary software solution to provide one-stop services to small and medium-sized businesses.



5. SpeedNet LLC—Wireless Network Expansion Project (\$1.5 million)

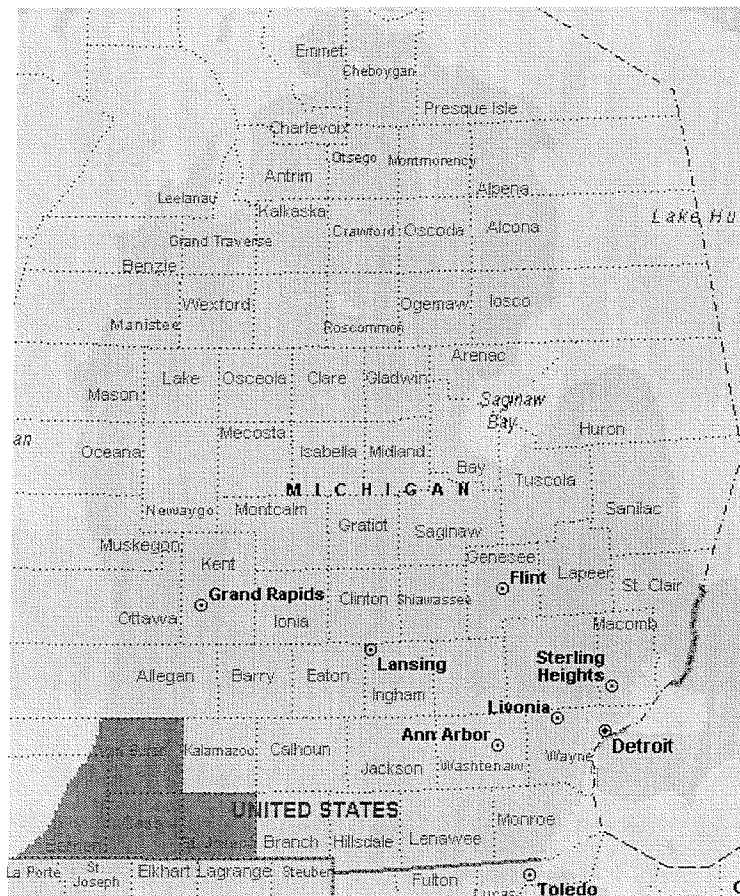
SpeedNet, a Saginaw-based wireless broadband service provider, is utilizing its MBDA loan to create one of the nation's first "non-line of sight" (NLOS) commercial broadband service deployments. The MBDA loan is helping to expand SpeedNet's network in Mount Pleasant and throughout much of the Bay City, Midland and the Saginaw tri-city region.

Traditional wireless broadband service can often be interrupted by trees, buildings and other obstacles, making such service limited in its reach, without the high-cost installation of large customer antennas. SpeedNet's NLOS technology literally bounces wireless broadband signals around such obstacles allowing easier transmission. Customers will only need a small modem to get SpeedNet's service, similar in cost and installation ease to a cable or DSL Modem.



6. ACD.net “West”—Expansion Project (\$1.625 million)

ACD.net, a Lansing-based provider, is using this MBDA loan to purchase assets from Quantum Connections, upgrade those assets and expand its network into southwest Michigan, including portions of Van Buren, St. Joseph, Cass, and Berrien Counties. With the MBDA’s financing assistance, ACD.net is building new broadband infrastructure in 17 communities. These include: St. Joseph, Benton Harbor, Buchanan, Cassopolis, Coloma, Dowagiac, Edwardsburg, New Buffalo, Niles, Baroda, Bridgman, Stevensville, Paw Paw, Portage, Allegan, South Haven and Centerville. Roughly 70,000 homes and businesses will have a new service option in these communities when ACD completes its upgrades.



ACD.net is a family owned business that has steadily created jobs. They provide DSL, dial-up, fiber optic dark fiber access, consulting and other network integration and information technology services. They’ve been in existence for 17 years and are the largest independent DSL provider in the state.

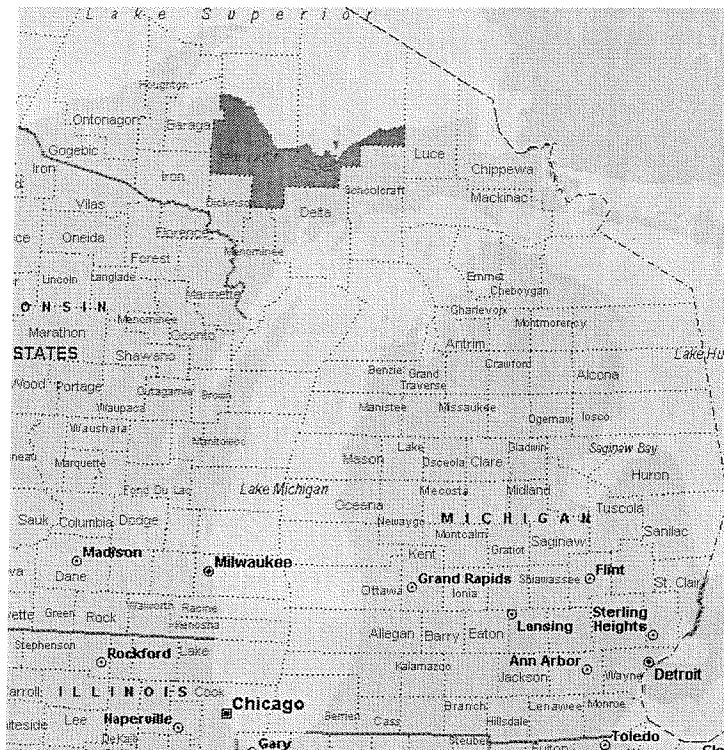
7. PCS Broadband, LLC—Wireless Broadband Expansion Project (\$510,000)

PCS is utilizing its MBDA loan to expand its wireless service to businesses in several Michigan cities. PCS specializes in providing wireless services to small businesses where cable and/or DSL coverage is weak or non-existent. PCS targets industrial parks and other areas where traditional providers have not ventured. PCS does not sell residential service. Their MBDA loan is helping them expand into Battle Creek, Birmingham, Brighton, Eaton Rapids, Fenton, Howell, Jackson, Kalamazoo and parts of Lansing.



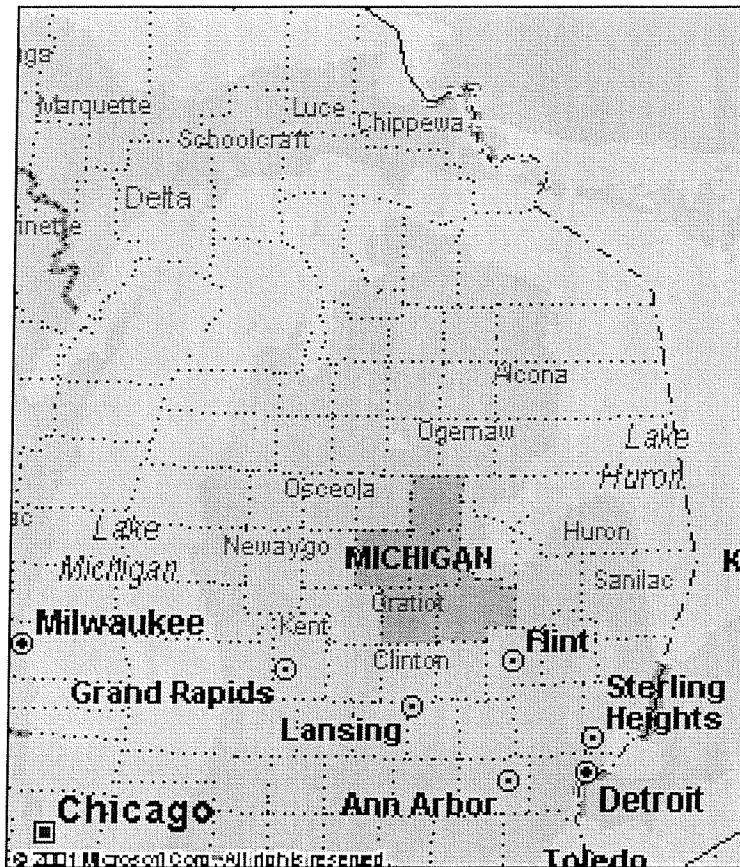
8. UPLink Services—Seed Loan for Marquette Wireless Broadband Project

UPLink Services, a Marquette-based wireless broadband service provider, is utilizing an MBDA seed loan of \$50,000 to further refine engineering and planning efforts to expand its wireless network throughout Marquette County. UPLink has since applied for a \$1.5 million loan to do so. The MBDA Board of Directors will consider this loan application later this spring.



9. ISP Wireless, Inc.—Wireless Broadband Project (\$341,836)

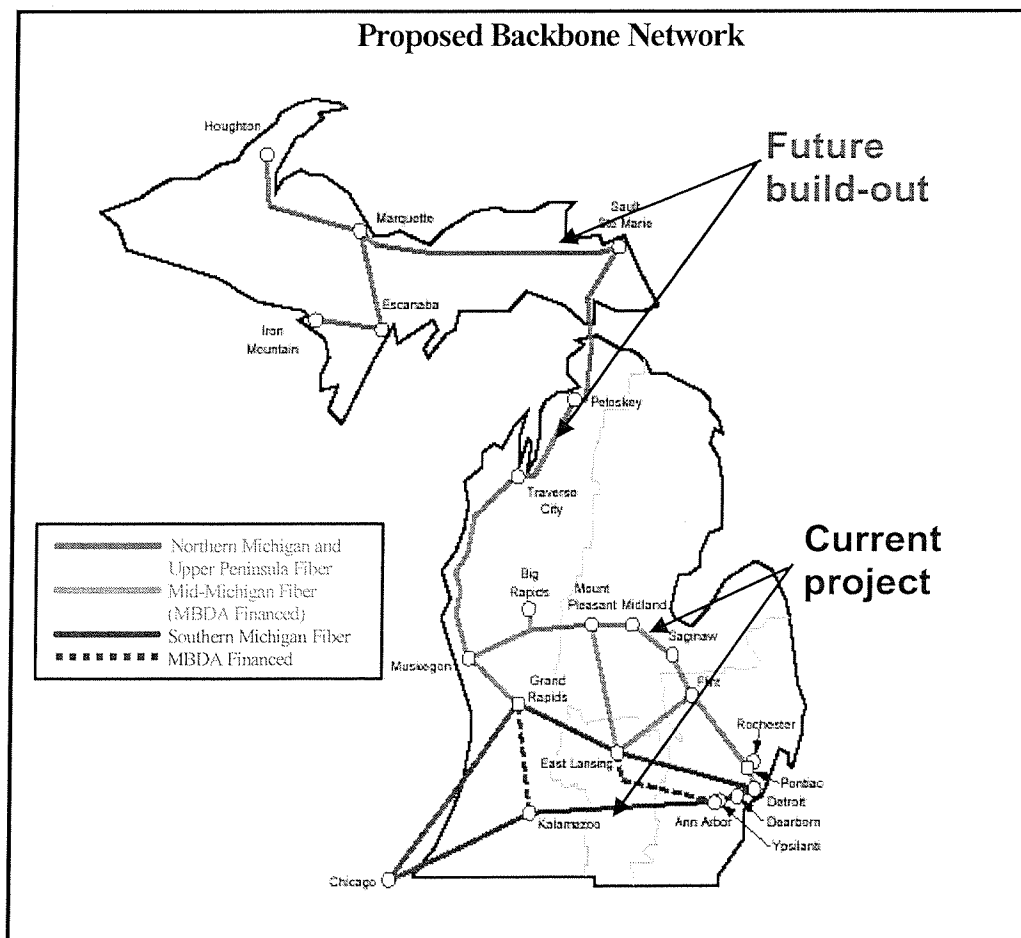
ISP Wireless, an Alma-based wireless broadband provider, is using its MBDA loan to expand service in Beaverton, Clare, Coleman, Gladwin, Hemlock, Ithaca and Rosebush.



10. Merit Network Inc.—Lower-Michigan Fiber Project (\$4.1 million)

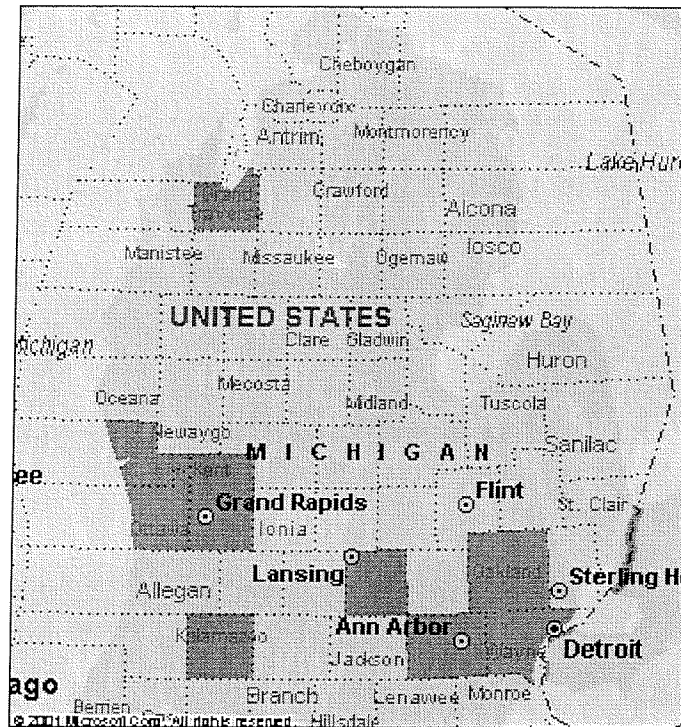
The MBDA Board of Directors approved a loan to Merit Network for \$4.1 million to assist Merit with the acquisition of dark fiber throughout much of lower-Michigan. By deploying its own fiber infrastructure, Merit will improve its capabilities, reduce its costs, and, by extension, the prices it charges to its not-for-profit and educational customers. Merit's network is currently comprised primarily of leased circuits purchased from telephone companies. Although leased circuits offer flexibility and require little upfront capital expenditure, they are not cost-effective at higher bandwidth levels. It is expected that this pricing dilemma will continue into the future and could be exacerbated given recent regulatory changes at the federal level. The deployment of owned infrastructure eliminates reliance on the telephone companies' networks and pricing model and enables Merit to expand its service offerings on a lower cost, scalable network. The proposed project is expected to provide immediate cost savings to Merit, as well as recurring savings of millions of dollars annually.

It should be noted that Merit is attempting to lower its costs for this project further, seeking qualification for tax exempt financing through the Industrial Development Revenue Bond (IDRB) program managed by the Michigan Strategic Fund. The MBDA loan would utilize taxable bond proceeds and thus provides a slightly higher interest rate.



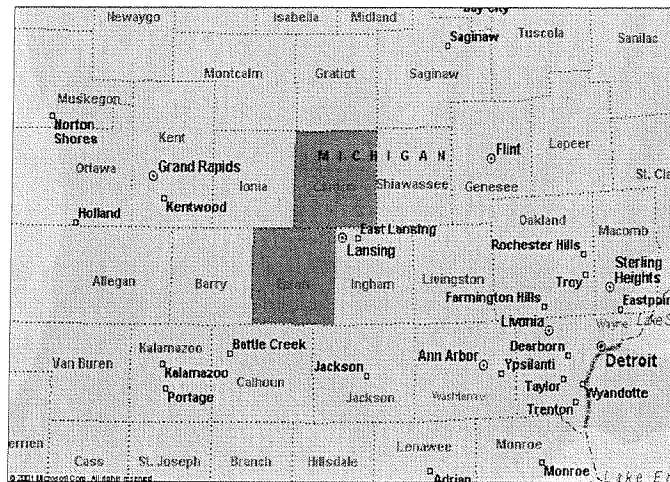
11. LDMI Communications—Equipment and Network Expansions (\$5.1 million)

LDMI Communications, a Southfield-based competitive local exchange carrier (CLEC), will be utilizing its MBDA loan to expand their facilities-based services throughout much of Michigan. LDMI sells a host of telecommunication services and specializes in serving business customers. LDMI employs nearly 400 people and has steadily grown over the last decade.



12. Lighthouse Broadband—Broadband over Power Line (BPL) Project (\$520,204)

The Shpigler Group, Inc. (dba Lighthouse Broadband), a New York-based firm, will be utilizing its MBDA loan to create only the 5th commercial deployment of BPL technology in the United States. Given Michigan's reputation as a national leader in supporting broadband expansion efforts, the Shpigler Group targeted Michigan as a commercial deployment location. Lighthouse will initially be offering its services in Grand Ledge and St. Johns. BPL technology sends radio frequencies along the electric grid to end users.



Portfolio Summary

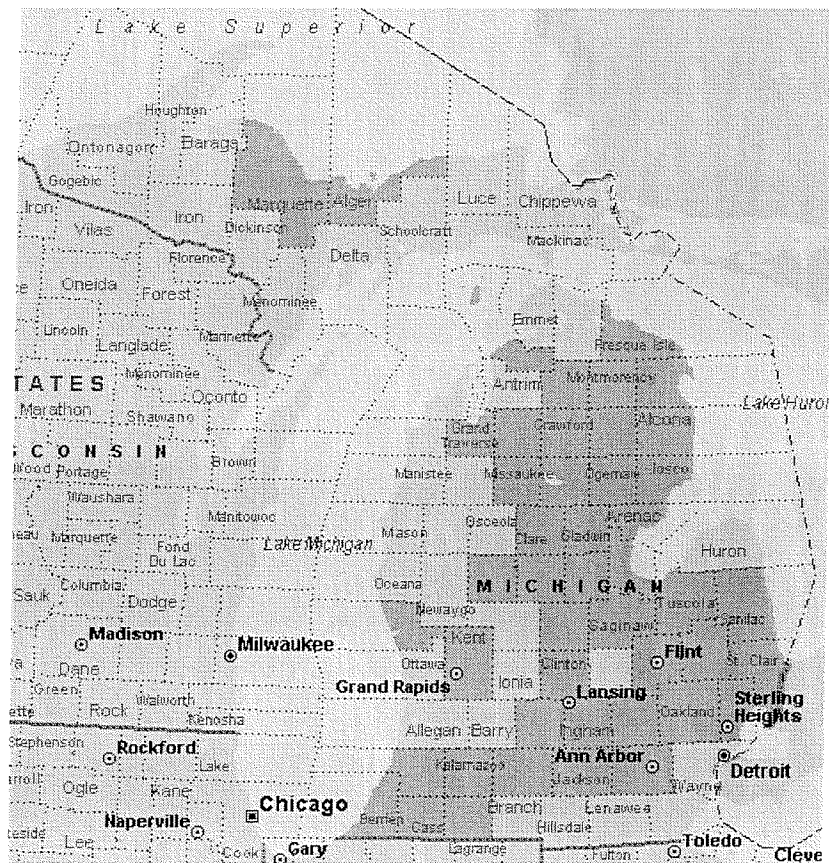
Total number of counties at least partially impacted by approved loans: **45**

Total number of cities impacted by approved loans once networks are built and lit: **150**

Total number of loan applications received in last 12 months: **25**

Total dollar amount of approved projects: **\$17.7 M**

Total dollar amount in project "pipeline" (loans already approved, applications received and expected in 2005): **\$35 M**



2005 Outlook

Having worked hard in late 2002 and early 2003 to get the MBDA up and running as a new financing organization, the MBDA has gone from making 1 loan for a little more than \$300,000 in 2003, to 9 loans for more than \$12 million in 2004. The Authority has demonstrated that it now has the systems and team in place to effectively and efficiently work with providers across the state. The MBDA is particularly proud of the work it is doing with Michigan-based entrepreneurs.

To kick-off 2005, the MBDA Board of Directors approved 2 more loans last month for nearly \$6 million. These loans (to LDMI and Lighthouse Broadband) are briefly highlighted in the aforementioned projects section of this report. Next month, the MBDA plans to take at least two more projects forward for financing. Combined, these projects total more than \$5 million. The MBDA also has several other loan applications cued up that will be processed later this spring. The MBDA is poised to expand the Digital Divide grant/loan program throughout other parts of the state and has established a goal of pushing its loan portfolio over the \$30 million mark in 2005. We look forward to reporting to you throughout the year as we progress toward this and many other goals.

For an electronic color copy of this report, along with other information about the Authority's programs and activities, please visit our website: www.broadbandauthority.org